Bombardier (TSX:BBD.B) Stock Hits 3-Year Low: Now What?

Description

The share price of **Bombardier** (TSX:BBD.B) just slipped to a level not seen since the fall of 2016, and investors are wondering if the pullback has gotten out of hand, or whether it signals the beginning of even more turbulence.

Let’s take a look at the current situation to see if Bombardier deserves to be on your contrarian buy list right now.

Liquidity

Bombardier has a debt problem.

The company finished Q2 2019 with US$9.3 billion in long-term debt. At the current exchange rate that’s more than CAD$12 billion.

Bombardier found buyers for US$2 billion in notes paying 7.875% interest earlier this year. The note are due in 2027 and were sold to cover bonds that were coming due in 2020. Looking ahead, Bombardier has just under US$1.5 billion due in 2021, and another US$1.7 billion due in 2022. An additional US$3.75 billion is due in 2023-2025.

This wouldn’t be an issue if the company were on track to hit its revenue and profit targets outlined in its 2020 turnaround plan. However, cash burn for the first six months of 2019 was US$1.473 billion and the company announced in late April that its 2019 revenue would be US$1 billion less than anticipated due to ongoing manufacturing and delivery delays, primarily connected to its rail division.

Bombardier finished Q2 with US$2.957 in cash and cash equivalents, plus US$689 million in available credit facilities. Based on the negative cash flow trend, Bombardier is on track to burn through its short term capital resources by the end of 2020.

The company will receive US$550 million when it closes the sale of its CRJ business, but that will only buy the company a few more months of liquidity.

At some point in 2020, Bombardier will have to go back to the bond market to try to find another US$1.5 billion to cover the notes coming due the following year. It will likely have to offer an even higher yield to convince investors to take the risk.

Bailouts

Bombardier received US$2.5 billion in investments from Quebec and the province's pension fund in 2016. The federal government provided a $372.5 million loan in 2017.

Investors assume that Quebec will continue to fund Bombardier if it gets into trouble again, given the thousands of high-paying jobs the company has in the province.

However, that isn't guaranteed. The province is in much better shape economically than in the past with diverse growth engines that make it less reliant on Bombardier and other troubled giants, such as **SNC-Lavalin**.

The current Quebec government might simply decide to let the market take its course.

Rebound odds

At the time of writing, Bombardier trades at $1.58 per share compared to $4.58 at this time last year. The recent plunge suggests that investors are starting to throw in the towel and it wouldn't take much to send the shares back toward the $0.80 mark it hit in early 2016.

Last time the stock was saved by two large orders for the troubled C-Series jets. The company won't be able to pull that rabbit out of its hat this time around, however. Bombardier sold a controlling interest in the CSeries to **Airbus** last year and the European giant is unlikely to give the planes away at a massive discount to boost orders to help Bombardier pay its bills.

The rail division continues to face challenges, with order delays and stiff competition from European and Chinese firms. As a result, help might not come from that side of the business.

Should you buy?

Traders could potentially pick up a quick profit on a bounce, but buy-and-hold investors should probably search for other cheap stocks today that have stronger balance sheets and at least pay dividends while you wait for a recovery.

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